EXECUTIVE SECRETARIAT
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17	SA/IA				
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19	C/IPD/OIS				
20	OEI/DDI		✓	[redacted]	
21	NIO/ECON		✓		
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SUSPENSE ______ Date

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Remarks:

Executive Secretary

1/9/84

Date

627 (10-81)

United States Department of State

Washington, D.C. 20520

January 6, 1984

Executive Registry
84- 040

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Senior Interagency Group No. 34

TO:
NSC - Mr. Robert Kimmitt
Energy - Mr. William Vitale
Commerce - Mrs. Helen Robbins
Defense - Col. John Stanford
CIA - [redacted] 25X1
OMB - Mr. Alton Keel
OPD - Mr. Edwin Harper
Treasury - Mr. David Pickford
Interior - Mr. Barry Allbright
Transportation - Mr. Logan H. Sallada

SUBJECT: IESG Meeting: Summary of Discussion

Attached are a Summary of Discussion of the IESG meeting held on December 1, 1983 and a list of those who attended.

Corey
Charles Hill
Executive Secretary

Attachments: a/s

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International Energy Security Group Meeting

December 1, 1983

Summary of Discussion

Energy Aspects of the President's Trip to Japan and Korea

Under Secretary Wallis reported that while it was something of a cliff-hanger, the President and Prime Minister Nakasone did release a Joint Policy Statement on energy cooperation. The Statement reaffirms the importance of continuing to discuss ways of developing energy trade, emphasizing the central role of the private sector. We agreed to keep under review the removal of restrictions on exports of domestic crude oil. The Japanese would have preferred a statement committing the U.S. to work toward such removal, but accepted our explanation that the current legislative climate made this unrealistic. Until quite late in the negotiations, the Japanese resisted any notion of private sector feasibility studies on joint development of Alaskan natural gas. They maintained that the prospective Japanese end-users already have commitments for supplies through the early 1990's. We pushed hard for the studies primarily because they will serve to gauge the degree of Japanese interest in North Slope or Cook Inlet gas development projects. The Japanese will need additional supplies of gas in the mid to late 1990's.

The most contentious text in the Joint Statement concerned coal. Our objective on steam coal was to secure fair and equal opportunity for U.S. suppliers to compete in the Japanese market as demand increases along with recovery. We sought to forestall the possibility of Japan's treating the U.S. as a swing supplier, as has occurred in the metallurgical coal market. Substitution of coal for oil in electrical generation will benefit both countries, by enlarging the potential market for U.S. coal and by reducing Japanese dependence on oil.

Negotiations on metallurgical coal centered on the level of U.S. imports which the two sides would endeavor to maintain. A verbal understanding -- not for publication -- was eventually reached which esentially commits the Japanese to import a minimum of 10 to 12 million metric tons of metallurgical coal "next year and onwards," more if the coal is competitively priced. While this is a far cry from the 20 million tons that industry and coal state Congressmen wanted, the positive response from the Coal Exporters Association and the Western Coal Export Council was gratifying.

Reporting on a November 30 meeting of the coal industry held to prepare for the Japanese coal mission to the U.S., Assistant Secretary of Commerce McElheny said that the industry wanted the U.S.-Japan Energy Working Group to continue its work as a means of keeping pressure on the Japanese and, specifically, to press for incremental purchases to boost the total up to around 13.5 million tons. He noted that the industry associations had issued press releases endorsing the joint policy statement; they supported the agreement provided we continued to push hard.

Mr. Martin (NSC) said the statement was particularly impressive in view of the fact that it was the only one agreed between the President and Prime Minister and since so much progress had been made in such a short period (February to November). The Joint Policy Statement put the U.S. coal industry back on the map in Japan. In February U.S. exports were in danger of slipping further to as low as 2 million tons annually. We have now stabilized this situation. Our exports will, of course, have to be competitive. The government has provided a chapeau; it is now up to the industry. The Japanese understand at the political level that over the long term their purchases of U.S. coal are an important pillar of our economic and security relationship.

E. Allan Wendt, Deputy Assistant Secretary of State for Energy and Resources Policy, said it would be important to maintain the Energy Working Group to keep the pressure on the Japanese on natural gas projects as well. He said that there is an important and unresolved ambiguity clouding the future of gas export projects, namely, whether the legislation which removed the obstacles to the ANGTS project also dedicated North Slope gas to that project, thus precluding its use for export unless new legislation was passed. He noted that at a recent hearing held by Senator Murkowski, the Administration had been unable to give a clear answer to this question. Legal counsel at the Departments of Energy and State both believe that, as written, the legislation precludes the use of Alaskan North Slope gas for projects other than ANGTS. Private companies do not want to risk large investments in an export project unless this legal question is clarified. We may have to consider whether to seek new legislation to remove the legal impediment should serious interest in an export project develop.

Mr. Khedouri (OMB) commented that the 1981 decision to acquiesce in the legal waiver process was a wholly passive one. It was not a commitment to ANGTS per se but rather to remove the government as an obstacle. It was difficult to envision this Administration having an actual commitment to the project. Under Secretary Wallis agreed, noting that it was the Canadians who were interpreting it as an implicit commitment.

Mr. Martin (NSC) said that we had done the Canadians a favor in proposing the waiver package. There had been no widespread enthusiasm in the Administration.

Mr. Khedouri commented that to the extent that there were alternatives, we ought to exercise the same degree of neutrality toward them.

Secretary Hodel's Trip to the Middle East

DOE Assistant Secretary for International Affairs Merklein said that Secretary Hodel had two objectives in the Middle East: (1) getting to know key energy figures with whom he could talk freely in the event of an oil emergency; and (2) soliciting views on current threats to the region, particularly the Iran-Iraq war.

Secretary Hodel found great concern about the Iran-Iraq war in the Gulf States. These countries had recently agreed to seek U.N. pressure to focus world opinion on the possible closing of the Straits of Hormuz. Perceptions of the severity of this threat were mixed. The opinion was widespread, however, that closure of the Straits was undoable and unthinkable. It was believed that the U.S. would step in when the oil stopped flowing. The Seventh Fleet would keep the Straits open.

Mr. Khedouri agreed that this was the clear and universal view. The Gulf states felt that it would not even be necessary to invite the fleet in to keep open the Straits.

Mr. Merklein said that Secretary Hodel had cautioned Gulf leaders not to count on unilateral action by the U.S.

Regarding specific comments of interest, Saudi Petroleum Minister Yamani told Secretary Hodel that he was "99 percent certain" that Iraq would take military action against Iran and that Iran would retaliate. He said that the nominal price of oil would remain at $29 a barrel for the next three years; real prices would rise slowly thereafter.

In Algeria, Energy Minister Nabi said it would be extremely dangerous to hold the price of oil at $29. This would inevitably lead to a sudden adjustment, disrupting markets.

Algerian President Bendjedid urged that the U.S. continue its efforts to end hostilities in the Middle East. He would welcome innovative and imaginative U.S. peace proposals. Algeria is willing to play a role in seeking peace, but has run out of ideas. He did not raise the issue of Algerian sales of LNG to the U.S.

The Emir of the United Arab Emirates complained that the UAE was being treated as a second class citizen when it came to military hardware. He contrasted this with the "first class" equipment which the U.S. makes available to Saudi Arabia.

IEA Antitrust Waiver Authorization (EPCA 252)

Mr. Wendt said that the failure of Congress to extend the anti-trust defense for firms participating in the IEA's emergency sharing program (EPCA 252) means that protection will lapse on December 31, 1983. The House passed a clean bill extending the waiver authorization to June 1985. This failed in the Senate, however, when Senator Metzenbaum added a rider extending the exemption until June of next year, with a further extension dependent on enactment of stand-by domestic emergency allocation controls. Without EPCA 252, companies could cooperate to some degree during a crisis but would be exposed to treble damage suits. Realistically, major oil companies are not willing to run this risk.

An interagency group is currently examining how our obligations could be met in an emergency. One preliminary view is that it would be possible to meet our commitments under existing legislation. EPCA 251 empowers the President to impose an oil allocation regime. This is, of course, a very cumbersome way to deal with the problem. We would not get the efficiencies resulting from pure private sector handling. We can also meet our commitments to supply information under EPCA 254. However, the IEA system, and U.S. participation in that system, were designed with voluntary company participation in mind. We can meet our obligations without EPCA 252, but the situation is far from ideal.

The timing of the lapse is especially poor, given the volatile situation in the Middle East. It is also unfortunate that it comes at a time when some of our IEA partners are questioning the strength of our commitment to the IEA in general and to the emergency allocation system in particular. To combat these problems the Administration needs to devise a legislative strategy to resurrect anti-trust exemption as soon as Congress returns. In the interim, we need to give strong reassurances to our IEA partners that our commitment to the IEA and the emergency sharing system is unaffected by the lapse of EPCA 252.

Mr. Khedouri said that the fact that EPCA 252 has lapsed before should be reassuring. He also said that he believed that our Congressional adversaries had made a strategic error in not accepting a compromise which would have extended EPCA 252 until February or March. Had that happened, the Administration would have been forced to fight the battle for renewal at the height of a busy legislative session in a more political period. With the lapse, the Administration can now press very hard for extension at the beginning of the next Congressional session. The situation may be better than if Congress had taken us up on our offer to extend to February or March.

Mr. Merklein said the Department of Energy fully supports renewal of EPCA 252 and will work with Senator McClure to push for unencumbered extension. If necessary, DOE will ask the leadership for a cloture petition to disarm a Metzenbaum filibuster.

Mr. Martin said that the NSC was "appalled" by the lapse of EPCA 252 at this time. The Administration's support for the IEA should be conveyed to our Allies at Cabinet level and at the upcoming IEA Governing Board meeting. Congressman Dingell had assured him that he would be helpful in securing quick passage of the necessary legislation at the next session.

Mr. Khedouri noted that the anti-trust defense was limited. Even with EPCA 252 protection, if the system were triggered, there is no guarantee of antitrust immunity. Companies are still open to the risk of litigation charging that they engaged in anti-competitive practices not directly related to IEA emergency sharing activities. The risk of a suit stemming from IEA participation in a lapse period is only slightly larger.

Under Secretary Wallis commented that there is a basic contradiction in the government's policies. We have both a commitment to the IEA and a statement to the effect that allocations which the IEA would initiate would result in a gross waste of oil.

Mr. Martin said Ulf Lantzke, the current IEA Executive Director, was not trigger happy.

On the subject of the IEA Directorship, Under Secretary Wallis noted that Lantzke's term will end in March. He asked that anyone having suggestions regarding a successor contact Mr. Wendt, Mr. Martin, Mr. Merklein or Mr. Khedouri.

IESG MEETING
December 1, 10:00 a.m.
D Conference Room

ATTENDANCE

Name	Agency	Telephone
R. L. McElheny	Commerce	377-1461
Bill Martin	NSC	395-5607
F. Khedouri	OMB	395-4844
Martin Smith	OPD	456-7993
Desaix Anderson	State	632-3152
Maurice Ernst	CIA	[redacted] 25X1
Michael Michalak	State	632-3152
Dianne Markowitz	State	632-6986
Lou Pugliaresi	State S/P	632-9571
Ken Glozer	OMB	395-3040
[redacted]	CIA	[redacted] 25X1
J. Nix	OMB	395-3664
Howard Lapin	DOT	755-7684
Ron Kleinman	State L/EB	632-0349
Gregory Miller	State EB	632-1052
Charles Patrizia	State S/SN	632-2464
H. A. Merklein	DOE	252-5800
Dave Tarbell	OSD/DOD	695-2659
Allan Wendt	State EB	632-1498
Dave Burns	State EB	632-8097
Ernest Chase	Treasury	566-5071